PENSION & FINANCIAL FORECAST UPDATE

Study Session

September 26, 2018

Long-Term Financial Assessment

Purpose

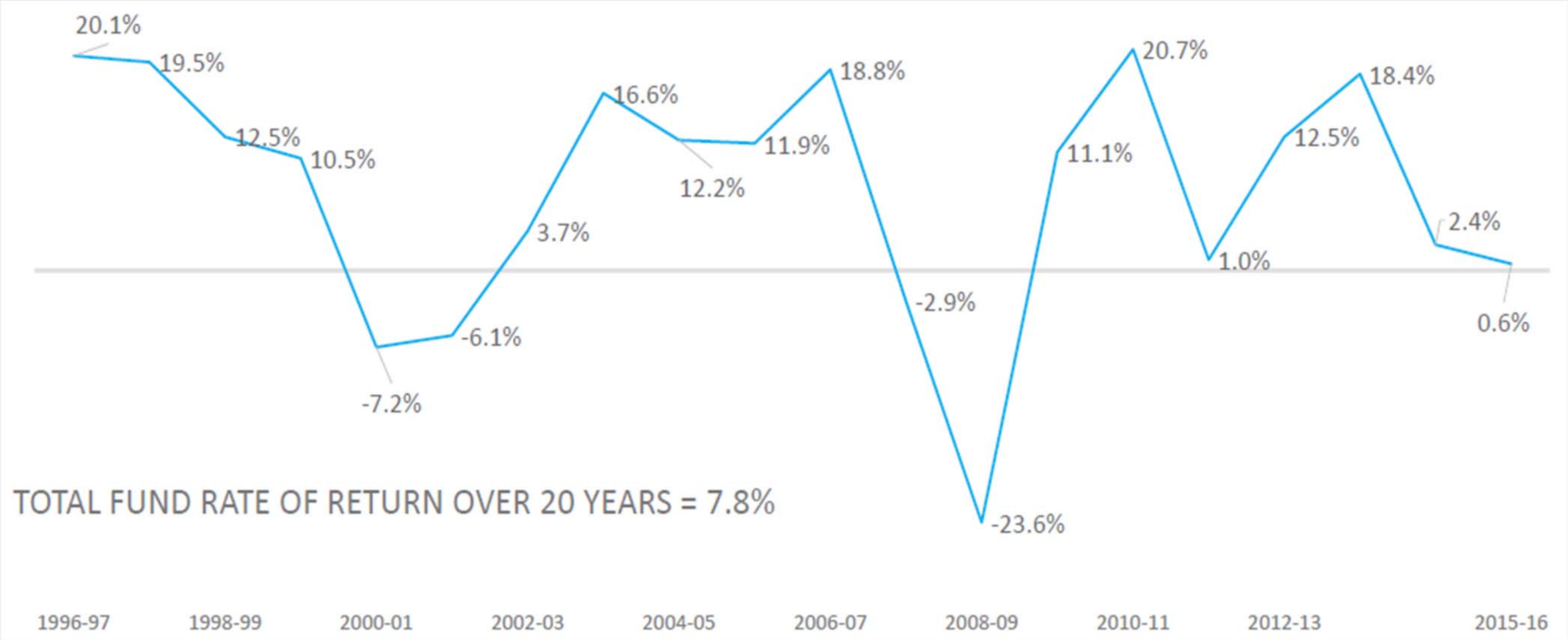
- Prepare five-year forecast of revenue and expenditures as a tool for financial sustainability
- Should compliment other planning processes that the City uses such as strategic planning, capital improvement planning, and budgeting
- Helps to identify significant future expenses, liability, problems and resources that are not included or recognized in the two-year budget (like the long-term impact of pension costs)
- Forecast is not a budget and a projected budget gap (shortfall) is not the same thing as a budget deficit
- A budget gap can be eliminated through strategies that will achieve long-term sustainability to City's services, meet capital improvement objectives and address other financial challenges
- First Pension & Financial Assessment and presentation, incorporate additional items in the future based on City Council feedback

Pension History

Background CalPERS

- City has contracted with CalPERS since 1967
- Approximately 615 active and 940 retired employees in CalPERS system
- The City has four retirement plans with CalPERS:
  - *Miscellaneous Plan - 2.7% at 55 (Classic) and 2% at 62 (PEPRA)*
  - *Safety Plans - 3% at 50 (Classic) and 2.7% at 57 (PEPRA)*
- Employees earn a retirement allowance (defined benefit) based on:
  - *Years of Service*
  - *Highest Annual PERSable Compensation (most OT excluded)*
  - *Age at Retirement*
- City and employees share in the normal cost (annual cost of service)
- Unfunded liability occurs when projected benefits payable to members exceed the projected funds available to pay those benefits ($254.2M)
- Cost to leave CalPERS is over $539M and is financially prohibitive
- Not being a member of CalPERS is at a competitive disadvantage to recruit and retain employees

CalPERS Investment Returns - Last 20 Years



Every dollar paid to CalPERS retirees comes from three sources:

- Some people believe that taxpayers fund the total cost of public pensions
  - *This is untrue*
- The largest contribution comes from CalPERS investment dollars, with additional funding from employee and employer contributions

CalPERS Plan

- CalPERS is working to reach 100% funded in 30 years
- Higher contributions short-term
- Lower contributions long-term
- Recently lowered expected investment rate of return from 7.5% to 7.0%
- Will continue to evaluate discount rates based on actual investment returns
- Better funded status

City Strategy – Accelerated Funding

- Additional discretionary payments above required amount
- Have paid $16.1 million to date over required amount
- Additional payments are expected to continue through FY 2022-23
- Payments made ***exclusively*** benefits City Plans
- Total contributions of $34.1M projected to save $51.3M over 20 years
- Strategy assumed:
  - CalPERS investments returns would average 7.0% over 30 years
  - No changes in CalPERS assumptions
  - Each $1 million payment is estimated to save $1.5 million over 20 years
- For plans below 65% funded, contribute to lowest funded plan (Misc.) until it matches the next lowest plan (Police). Contribute to both plans proportionately until all plans are at least 65% funded.

CalPERS Actuarial Reports
Valuation June 30, 2017 – Received 2018

What's changed in the last year?

ALL PLANS

- Improved outlook for all plans
  - *Investment gains in 2017, amortized over 30 years*
  - *Assumption changes, amortized over 20 years*
    - Experience Study adopted Dec. 2017 (review of retirement rates, termination rates, mortality rates, salary increases, and inflation assumptions)

MISCELLANEOUS PLAN

- Additional Contributions - $10.1M FY 2017-18, $6.0M FY 2018-19
- 'Fresh Start' refinance, flattens out future contributions

Projected Employer Contributions

Unfunded Liability + Normal Cost (All Funds)

Difference in Projected Employer Contribution Rate (June 30, 2017 compared to June 30, 2016)

PERS Group	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative Change from prior year	% Change from prior year
Misc.	$ -	$ (117,253)	$ (1,131,868)	$ (2,336,011)	$ (3,431,700)	$ (4,278,956)	$ (3,279,802)	$ (14,575,589)	-13.0%
Police	-	112,923	(12,176)	(108,180)	(213,874)	(332,290)	(399,459)	(953,057)	-1.1%
Fire	-	(119,299)	(214,837)	(295,016)	(383,707)	(480,930)	(528,706)	(2,022,495)	-4.4%
Fire PEPRA	-	14,438	7,794	7,064	6,317	6,850	(5,837)	36,625	4.1%
Total	$ -	$(109,190)	$ (1,351,088)	$(2,732,143)	$(4,022,965)	$(5,085,326)	$(4,213,804)	$ (17,514,515)	-7.1%

Projected Employer Contribution Rate - June 30, 2017 (dated 2018)

PERS Group	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Misc.	$ 12,508,931	$ 13,785,284	$ 14,066,948	$ 14,151,289	$ 14,237,949	$ 14,326,993	$ 14,418,485
Police	9,296,555	10,542,102	11,671,110	12,547,745	13,364,029	13,964,059	14,539,941
Fire	4,619,619	5,254,128	5,878,633	6,436,187	6,909,683	7,223,171	7,538,709
Fire PEPRA	91,510	131,023	135,434	139,856	144,372	149,984	142,196
Total	$ 26,516,615	$ 29,712,535	$ 31,752,124	$ 33,275,077	$ 34,656,032	$ 35,664,208	$ 36,639,331

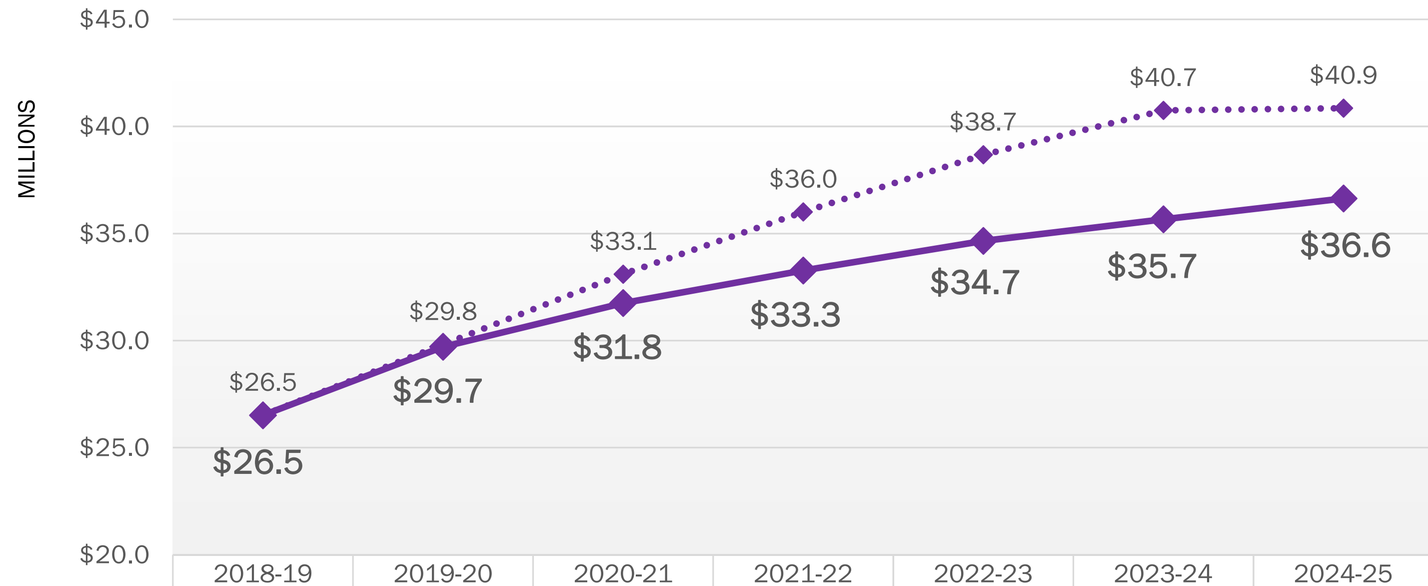
This Year

Projected Employer Contribution Rate - June 30, 2016 (dated 2017)

PERS Group	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Misc.	$ 12,508,931	$ 13,902,536	$ 15,198,816	$ 16,487,300	$ 17,669,649	$ 18,605,948	$ 17,698,287
Police	9,296,555	10,429,178	11,683,286	12,655,925	13,577,903	14,296,350	14,939,400
Fire	4,619,619	5,373,426	6,093,470	6,731,204	7,293,390	7,704,101	8,067,415
Fire PEPRA	91,510	116,585	127,640	132,791	138,055	143,135	148,034
Total	$ 26,516,615	$ 29,821,726	$ 33,103,211	$ 36,007,220	$ 38,678,997	$ 40,749,534	$ 40,853,135

Last Year

Projected Employer Contributions
All Plans, All Funds



	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
2017	$26.5	$29.8	$33.1	$36.0	$38.7	$40.7	$40.9
2018	$26.5	$29.7	$31.8	$33.3	$34.7	$35.7	$36.6
Difference	$0.0	-$0.1	-$1.4	-$2.7	-$4.0	-$5.1	-$4.2

Cumulative savings over **$17.5M**

Note:
- **Data from the most recent CalPERS actuarial valuation dated August 2018, compared with valuation dated July 2017**
- **Projected payroll is actual payroll from two years ago**

Unfunded Liability Contributions – All Plans

- As Presented in CalPERS Actuarial Valuation – June 30, 2017

Fiscal Year	Cal PERS Discount Rate	Normal Cost (% of Actual Payroll – % varies by group)	Required UAL Contribution (Excludes Normal Cost)	Total Projected Employer Contribution (From Actuarial Reports)	Estimated Additional Contribution to Unfunded Liability *
FY 2017-18	7.500%	$8,478,272	$15,365,533	$23,843,805	✓ $10,100,000
FY 2018-19	7.375%	$8,936,249	$17,580,366	$26,516,615	✓ $6,000,000
FY 2019-20	7.250%	$9,682,516	$20,030,019	$29,712,535	$6,000,000
FY 2020-21	7.000%	$10,580,124	$21,172,000	$31,752,124	$4,000,000
FY 2021-22	7.000%	$10,871,077	$22,404,000	$33,275,077	$4,000,000
FY 2022-23	7.000%	$11,170,032	$23,486,000	$34,656,032	$4,000,000
FY 2023-24	7.000%	$11,477,208	$24,187,000	$35,664,208	TBD
FY 2024-25	7.000%	$11,792,831	$24,846,500	$36,639,331	TBD

** Already included in Financial Forecast.*

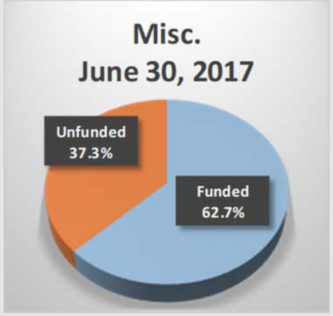
UAL = Unfunded Accrued Liability.

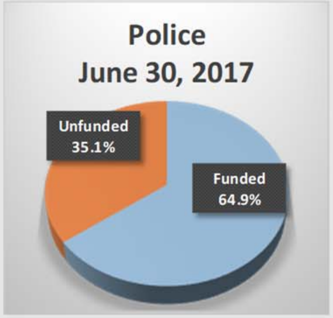
FY 2017-18 payment made June 2018. FY 2018-19 payment made July 2018. Both payments have been incorporated into updated projections from CalPERS.

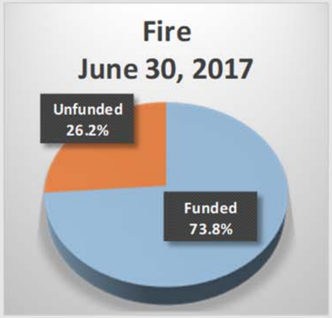
CalPERS Funded Ratios – August 2018

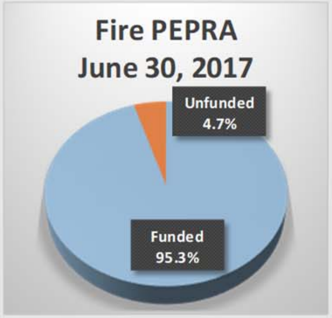
Plan	June 30, 2015		June 30, 2016		June 30, 2017	
	Unfunded Liability	Funded Ratio	*Unfunded Liability*	Funded Ratio	*Unfunded Liability*	Funded Ratio
Misc.	113,765,363	63.6%	129,480,665	60.1%	127,236,144	62.7%
Police	67,952,480	67.0%	81,779,726	62.9%	84,006,496	64.9%
Fire	33,516,570	77.0%	42,249,164	72.6%	42,981,506	73.8%
Fire PEPRA	2,994	91.0%	13,439	89.2%	15,550	95.3%
Total	$215,237,407		$253,522,994		$254,239,696	

YOY increase: <u>$38,285,587</u>   YOY increase: <u>$716,702</u>







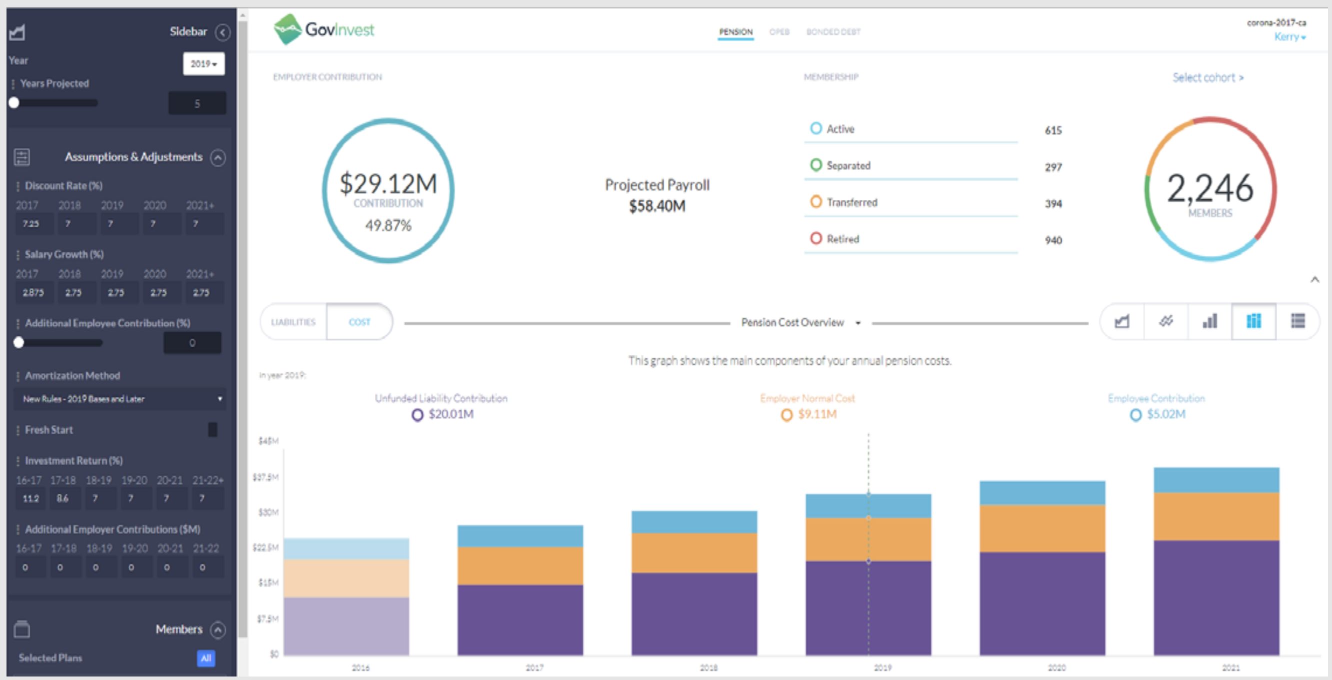


Note:
- **Data from the most recent CalPERS actuarial valuation reports for June 30, 2017 (dated August 2018)**

GovInvest Data

- Uses CalPERS baseline information
- Updated with new information provided by the City
- While not real-time information, data is more current than CalPERS Actuarial Valuation (AV)

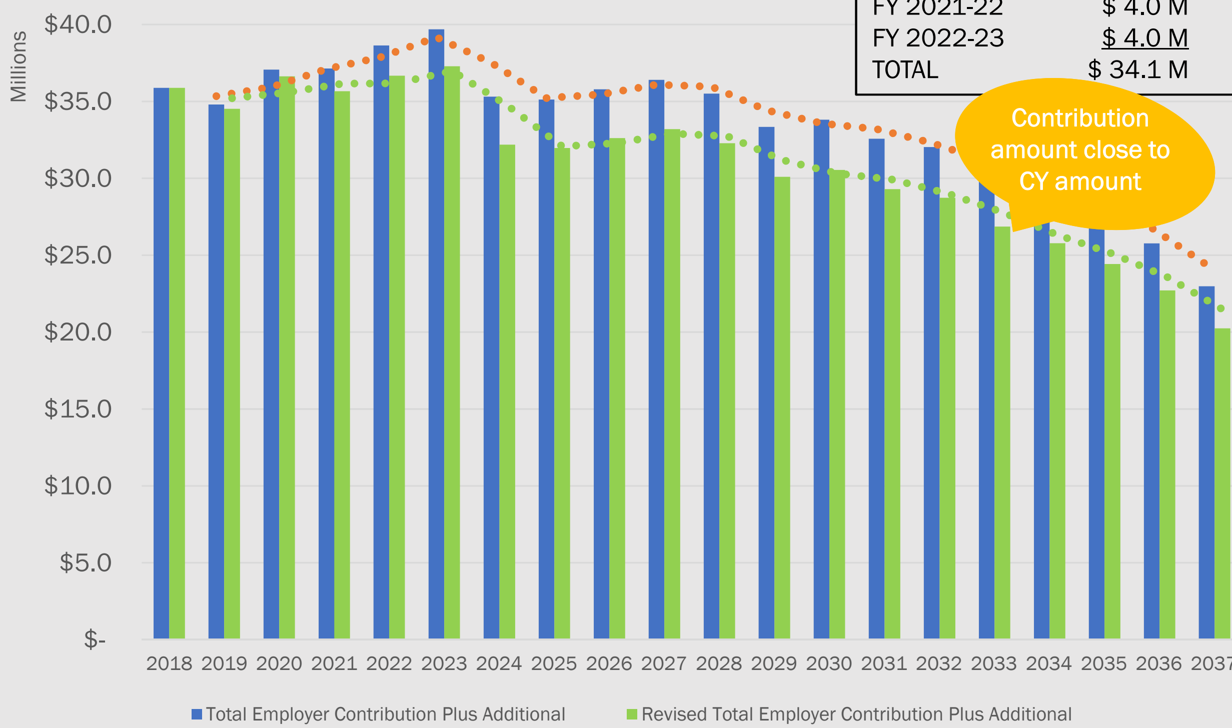
Assumptions sidebar is a helpful tool that allows for modeling and predictive analysis



GovInvest Data
CalPERS Baseline with City Comparison

- GovInvest allows for analysis of additional contributions and other changes and the impact on future year contributions
- In GovInvest, CalPERS data plus additional contributions, highest year would be $39.7M in FY 2022-23
- With planned additional contributions and adjustments for salary growth, highest year would be $37.3M in FY 2022-23
- Total paid over 20 years:
  - *$668.9M Original*
  - *$617.6M Revised*
  - ***$51.3M Savings over 20 years***

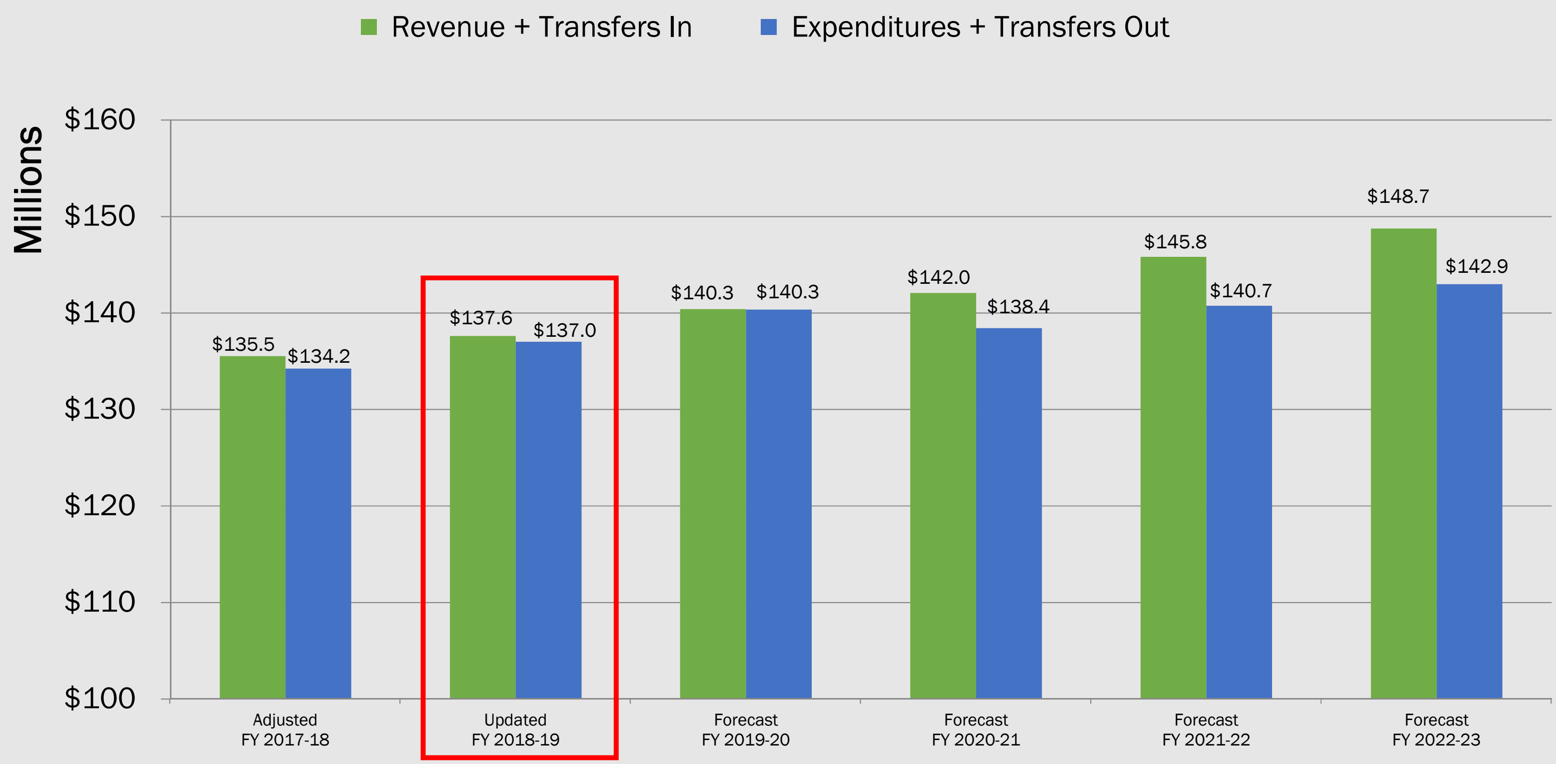
Additional Contributions Included:	
FY 2017-18	$ 10.1 M ✓
FY 2018-19	$ 6.0 M ✓
FY 2019-20	$ 6.0 M
FY 2020-21	$ 4.0 M
FY 2021-22	$ 4.0 M
FY 2022-23	$ 4.0 M
TOTAL	$ 34.1 M



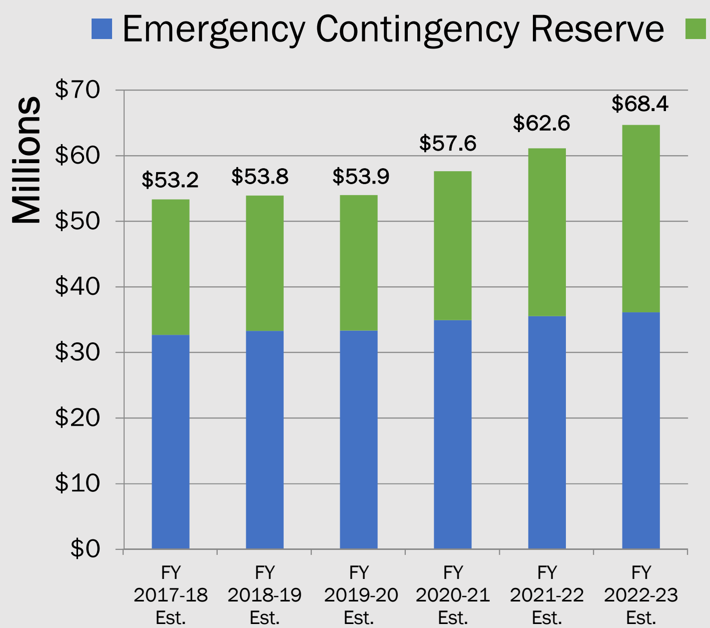
Current General Fund Forecast with Updated PERS Information

Description	*REVISED ** 2019*	*Forecast 2020*	*Forecast 2021*	*Forecast 2022*	*Forecast 2023*
Total Revenues and Transfers In	$ 137,563,252	$140,347,607	$ 142,023,670	$ 145,764,723	$ 148,699,250
Total Expenditures and Transfers Out	(136,960,383)	(140,292,268)	(138,371,530)	(140,692,986)	(142,933,265)
Change in Fund Balance	**$ 602,869**	**$ 55,339**	**$ 3,652,140**	**$ 5,071,736**	**$ 5,765,985**
***** Revised = Adopted + PERS Actuarial Report Changes + Development Revenue Changes***					
Additional PERS Contributions (included above)	$ 6,000,000	$ 6,000,000	$ 4,000,000	$ 4,000,000	$ 4,000,000
Changes since adopted budget:					
Revenue - development related revenue	-	869,800	781,000	1,225,000	1,319,200
Expenditures - PERS	-	(29,783)	538,436	1,333,160	2,085,064
Difference to adopted - Positive / (Negative)	-	**$ 840,017**	**$ 1,319,436**	**$ 2,558,160**	**$ 3,404,264**

General Fund
Revenue and Expenditure Overview



General Fund Reserve Balances – Based on Updated Forecast



	Budget Balancing Measures Reserve	Emergency Contingency Reserve	Reserves Running Total
FY 2017-18 Est.	20,645,252	32,600,000	53,245,252
FY 2018-19 Est.	-	602,869	53,848,121
FY 2019-20 Est.	-	55,339	53,903,460
FY 2020-21 Est.	2,070,417	1,581,723	57,555,600
FY 2021-22 Est.	4,455,707	616,030	62,627,337
FY 2022-23 Est.	5,169,528	596,457	68,393,322
Reserve Balance	**$ 32,340,904**	**$ 36,052,418**	

FY 2022-23 Estimated Emergency Contingency Reserve -

$36.1 million is equal to 3.0 months of estimated operating costs.

Preliminary S&P Global Rating

- S&P Global Ratings **affirmed** its '**AA-**' underlying rating on the City, the outlook is stable.
- The rating reflects S&P's view of the city's:
  - **Strong economy**, with access to a broad and diverse metropolitan statistical area;
  - **Strong management**, with good financial policies and practices under our Financial Management Assessment methodology;
  - **Strong budgetary performance**, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
  - **Very strong budgetary flexibility**, with an available fund balance in fiscal 2017 of 55% of operating expenditures;
  - **Very strong liquidity**, with total government available cash at 1.5x total governmental fund expenditures and 63.0x governmental debt service, and access to external liquidity we consider strong;
  - **Strong debt and contingent liability position**, with debt service carrying charges at 2.4% of expenditures and net direct debt that is 52.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 75.2% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
  - **Strong institutional framework score.**

QUESTIONS